

## Message Text

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SUBJ: SUCCESSFUL VISIT OF PETROLEUM ENGINEERING EXECUTIVES

REF : LAGOS 11780

1. DECEMBER 7 TO 9 VISIT BY EXECUTIVES OF U.S. DESIGN, CONSTRUCTION AND ENGINEERING FIRMS IN PETROLEUM AND PETROCHEMICAL FIELDS WAS HIGHLY SUCCESSFUL FROM BOTH U.S. AND NIGERIAN VIEW-POINTS. DURING COURSE OF SCHEDULE EXECUTIVES MET WITH STRONG REPRESENTATIONS OF KEY WORKING LEVEL OFFICIALS FROM NIGERIAN MINISTRIES. MINISTRY OF PETROLEUM PROVIDED PRESENTATIONS BY TEN RANKING OFFICIALS, MINISTRY OF INDUSTRIES FEATURED PERMSEC'S PARTICIPATION AND HAD TWO KEY DEPARTMENT HEADS CANCEL LEAVE AND OFFICIAL TRAVEL TO BE PRESENT. AMBASSADOR'S RECEPTION ON NIGHT DECEMBER 8 ALSO WELL ATTENDED, WITH COMMISSIONERS OF FINANCE AND MINES AND POWER PRESENT.

2. DELEGATION FULFILLED GENERAL OBJECTIVE OF MAKING CLEAR TO NIGERIAN OFFICIALDOM THE INTEREST OF AMERICAN FIRMS IN PARTICIPATING IN COUNTRY'S DEVELOPMENT PROJECTS AND IN TURN RECEIVED THOROUGH BRIEFING ON ALL ASPECTS OF INTEREST. IN ADDITION, DELEGATION WAS ABLE TO FOCUS SHARPLY ON ISSUE OF LUMP SUM TURNKEY FORM OF CONTRACT REQUIRED IN TENDERS. THIS HAS BEEN GREATEST SINGLE STUMBLING BLOCK TO INVOLVEMENT BY U.S. CONSTRUCTION AND ENGINEERING FIRMS IN NIGERIA AND IS FREQUENT CAUSE OF NIGERIAN COMPLAINTS THAT U.S. BUSINESS FIRMS SHOW LACK OF INTEREST IN NIGERIA.

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3. DELEGATION REPEATEDLY EMPHASIZED IN UNAMBIGUOUS TERMS THAT THE

U.S. DESIGN AND CONSTRUCTION ENGINEERING INDUSTRY AS A WHOLE COULD NOT AND WOULD NOT BID ON "LUMP SUM" PROJECTS BECAUSE EQUIPMENT SUPPLIERS COULD NOT GIVE QUOTATIONS VALID FOR LONG PERIODS. SPOKESMEN COGENTLY POINTED OUT THAT ALTERNATIVE IS TO PAD CONTRACT WITH CONTINGENCY FEES WHICH IN END COULD RESULT IN NIGERIA PAYING FAR MORE THAN NECESSARY. RECENT AWARD OF WARRI REFINERY CONSTRUCTION TO ITALY'S SNAM PROGETTI AT A COST OF 567 MILLION DOLLARS FOR 100,000 BARRELS PER DAY CAPACITY WAS COMPARED WITH 300,000 DOLLARS MAXIMUM WHICH DELEGATES SAID IT SHOULD HAVE COST. DELEGATION ALSO POINTED OUT THAT EUROPEAN AND JAPANESE GOVERNMENTS PROVIDE THEIR COMPANIES WITH INSURANCE TO PROTECT THEM FROM INFLATIONARY COST OVERRUNS, BUT THAT AMERICAN FIRMS THEMSELVES HAVE TO SUFFER CONSEQUENCES OF UNFORESEEN ERRORS IN ESTIMATING LUMP SUM COSTS, A SMALL MISTAKE AT TODAY'S MULTIMILLION DOLLAR PRICES BEING SUFFICIENT TO BANKRUPT A FIRM. GROUP SUGGESTED A NUMBER OF WAYS IN WHICH COST-REIMBURSABLE CONTRACTS COULD BE MONITORED, WITH CERTAIN COSTS FIXED IN STAGES, AND NATIONAL CONSTRUCTORS ASSOCIATION IS SENDING PERTINENT INFORMATIONAL MATERIALS TO HOSTS ON TECHNICAL ASPECTS OF BID AND CONTRACT FORMULATION.

4. NIGERIANS APPARENTLY IMPRESSED BY PRESENTATION OF U.S. ARGUMENTS BY INDUSTRY AS A WHOLE, RATHER THAN BY SINGLE FIRMS TRYING TO OBTAIN AWARDS FOR THEMSELVES. HARDEST LINE FOR LUMP SUM METHOD CAME FROM MINISTRY OF PETROLEUM, BUT EVEN ITS LEADING PRO-PONENT CONCEDED THAT HIS MINISTRY WOULD NOT INSIST ON THIS APPROACH IN EVERY CASE. MINISTRY OF INDUSTRIES STRESSED THAT FMG WOULD ALWAYS NEGOTIATE AND THAT ANY REASONABLE ADDITIONAL COST OCCURRING IN PROJECT WOULD BE ACCEPTED BY FMG, WHICH WAS AWARE THAT PROFIT SHOULD BE MADE. SEVERAL OFFICIALS, INCLUDING DIRECTOR OF NATIONAL DEVELOPMENT PLAN, SPOKE OUT STRONGLY AGAINST LUMP SUM IN FAVOR OF PART FIXED FEE, PART COST-REIMBURSABLE CONTRACTS, AND SHOWED THOUGHTFUL AWARENESS OF POTENTIAL WASTEFUL COST OF LUMP SUM CONTRACTS AS WELL AS UNDESIRABILITY OF PUTTING CONTRACTOR IN SUCH A BIND THAT HE WOULD ABANDON PROJECT HALFWAY THROUGH. PRIVATE SECTOR REPRESENTED BY LAGOS CHAMBER OF COMMERCE VOLUNTEERED TO LOBBY AGAINST LUMP SUM METHOD. BOTH SIDES ALSO SEEMED BECOME GRADUALLY AWARE THAT PART OF DIFFICULTY MAY BE SIMPLY COMMUNICATIONS AND PRECISE DEFINITION OF TERMS. CONSENSUS BEGAN TO EMERGE THAT GIVEN MUTUAL INTEREST IN ACHIEVING BEST POSSIBLE JOB FOR CUSTOMER AT FAIR PROFITS, IT SHOULD BE POSSIBLE TO WORK OUT AGREEMENT ON DETAILS OF HOW THIS CAN BEST BE DONE. IT APPEARS THAT WITH EDUCATIONAL ASSISTANCE FROM U.S. INDUSTRY, NIGERIANS CAN BE SHOWN HOW TO PROTECT THEIR FUNDAMENTAL INTERESTS AND STILL MAKE IT POSSIBLE FOR U.S. FIRMS TO BID REALISTICALLY AND BRING IN TECHNOLOGY WHICH NIGERIANS SEEK. DRIVING THIS POINT HOME TO BOTH SIDES WAS PROBABLY MOST USEFUL PURPOSE SERVED BY THE VISIT.

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5. B.F. GOODRICH CHEMICAL COMPANY, THWPXNE "OPERATING COMPANY"

(ABLE TO MANAGE PLANT AS WELL AS OR INSTEAD OF DESIGNING/CONSTRUCTING IT) IN GROUP, WAS DRAWN ASIDE DURING MINISTRY OF INDUSTRIES SESSION AND OFFERED MANAGEMENT CONTRACT TO RUN NEW 486 MILLION DOLLAR PETROCHEMICAL COMPLEX ENVISIONED FOR CONSTRUCTION NEAR PORT HARCOURT. GOODRICH, WHICH HAS BEEN FOLLOWING PROJECT SINCE 1970, IS NOW CONSIDERING PROPOSAL.

6. REFLECTING SATISFACTION WITH VISIT, DELEGATION MEMBERS SUGGESTED WE CONSIDER STAGING SIMILAR VISIT BY GROUP OF OPERATING COMPANIES IN PETROLEUM-RELATED FIELD IN LATE 1976.  
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